

# Inspector General

United States  
Department of Defense



DoD Efforts to Meet the Requirements of the  
Improper Payments Elimination and Recovery Act in  
FY 2012

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE <b>13 MAR 2013</b>		2. REPORT TYPE		3. DATES COVERED <b>00-00-2013 to 00-00-2013</b>	
4. TITLE AND SUBTITLE <b>DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2012</b>				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Inspector General of the Department of Defense, 400 Army Navy Drive, Arlington, VA, 22202-4704</b>				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT <b>Same as Report (SAR)</b>	18. NUMBER OF PAGES <b>21</b>	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			

## Additional Copies

To obtain additional copies of this report, visit the Department of Defense Inspector General website at <http://www.dodig.mil/pubs/index.cfm>, or contact the Secondary Reports Distribution Unit at [auditnet@dodig.mil](mailto:auditnet@dodig.mil).

## Suggestions for Audits

To suggest or request audits, contact the Office of the Deputy Inspector General for Auditing at [auditnet@dodig.mil](mailto:auditnet@dodig.mil) or by mail:

Department of Defense Office of Inspector General  
Office of the Deputy Inspector General for Auditing  
ATTN: Audit Suggestions/13F25-04  
4800 Mark Center Drive  
Alexandria, VA 22350-1500

DEPARTMENT OF DEFENSE

**hotline**

**To report fraud, waste, mismanagement, and abuse of authority.**

Send written complaints to: Defense Hotline, The Pentagon, Washington, DC 20301-1900  
Phone: 800.424.9098 e-mail: [hotline@dodig.mil](mailto:hotline@dodig.mil) [www.dodig.mil/hotline](http://www.dodig.mil/hotline)

## Acronyms and Abbreviations

AFR	Agency Financial Report
DFAS	Defense Finance and Accounting Service
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
OMB	Office of Management and Budget
SBR	Statement of Budgetary Resources
USACE	U.S. Army Corps of Engineers
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD



**INSPECTOR GENERAL**  
**DEPARTMENT OF DEFENSE**  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

March 13, 2013

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOD  
COMMANDING GENERAL AND CHIEF OF ENGINEERS,  
U.S. ARMY CORPS OF ENGINEERS  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
DIRECTOR, TRICARE MANAGEMENT ACTIVITY

SUBJECT: DoD Efforts to Meet the Requirements of the Improper Payments  
Elimination and Recovery Act in FY 2012 (Report No. DODIG-2013-054)

We are providing this report for your information and use. The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, met five of the six requirements of the "Improper Payments Elimination and Recovery Act of 2010." However, improper payments increased in the Defense Finance and Accounting Service Travel Pay category, and the DoD did not meet reduction targets in that category.

We considered management comments on a discussion draft of this report when preparing the final report. The management comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.

A handwritten signature in blue ink, reading "Lorin T. Venable", is positioned above the printed name.

Lorin T. Venable, CPA  
Acting Assistant Inspector General  
DoD Payments and Accounting Operations





# Results in Brief: DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2012

## What We Did

We determined whether the DoD complied with Public Law 107-300, "Improper Payments Information Act of 2002," November 26, 2002, as amended by Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010," July 22, 2010 (IPERA). We reviewed the DoD reporting in the "FY 2012 Agency Financial Report" (AFR), Addendum A, "Other Accompanying Information."

## What We Found

The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO) published the FY 2012 AFR showing that the DoD met five of the six requirements of the IPERA. Specifically, the DoD:

- published an AFR,
- conducted program specific risk assessments;
- published improper payment estimates;
- published corrective action plans; and
- reported improper pay rates of less than 10 percent.

The DoD did not meet the established reduction target for one of its eight payment programs, Defense Finance and Accounting Service (DFAS) Travel Pay.

The USD(C)/CFO set a FY 2012 reduction target for DFAS Travel Pay at 3.27 percent in the DoD FY 2011 AFR. However, the actual improper payments reported in the DoD FY 2012 AFR for DFAS Travel Pay were 5 percent of total outlays, or \$419.3 million. This occurred because authorizing officials'

reviews of travel vouchers were not adequate to prevent improper payments. As a result, improper payments increased in travel, and the DoD did not achieve the improper payment reductions intended in IPERA for DFAS Travel Pay or fully comply with IPERA in FY 2012.

The USD(C)/CFO made other program improvements during FY 2012; including using statistical sampling of contract and vendor payments, as well as reviewing additional military health benefit programs that had previously not been included in IPERA reviews. However, other challenges remained, including \$12.3 billion in outlays that were not reviewed for improper payments but should have been. As a result, the USD(C)/CFO did not provide accurate improper payment estimates.

## What We Recommend

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:

- work with Military Departments and Defense Agencies to develop metrics and quality assurance goals as well as programmatic corrective action plans for authorizing/certifying officials who certify vouchers that result in an improper payment, including holding those officials financially liable where appropriate; and
- submit a remediation plan as required by IPERA.

## Management Comments and Our Response

The Deputy Chief Financial Officer provided comments in response to this report. Management comments were responsive to the recommendations. Please see the recommendations table on the back of this page.

## Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD		1 and 2

# Table of Contents

<b>Introduction</b>	1
Audit Objective	1
Background on the Improper Payments Elimination and Recovery Act	1
Internal Controls Over the Identification and Reporting of Improper Payments	2
<b>Finding. DoD Met Five of the Six Improper Payments Elimination and Recovery Act Requirements and Made Significant Program Improvements</b>	3
DoD Properly Published an Agency Financial Report for FY 2012	3
DoD Identified Eight Payment Programs Susceptible to Improper Payments	4
Statistical Sampling and Projection of Improper Payments	4
Corrective Actions to Further Reduce Improper Payments	6
Reported Improper Payment Rates were Below the OMB Established Threshold	6
Improper Payment Estimates Increased for One of the Eight Payment Programs	7
DoD Also Met an Additional OMB Requirement to Report on Efforts to Recover Improper Payments	8
Disclosures on Accuracy and Completeness Showed Weaknesses in Improper Payments Reviews	8
Remediation for Non-Compliance	9
Management Corrective Actions	9
Recommendations, Management Comments, and Our Response	10
<b>Appendix. Scope and Methodology</b>	11
Use of Computer-Processed Data	11
Use of Technical Assistance	11
Prior Coverage on Improper Payments	11
<b>Management Comments</b>	13





# Introduction

## Audit Objective

Our objective was to determine whether the DoD complied with Public Law 107-300, “Improper Payments Information Act of 2002,” November 26, 2002, as amended by Public Law 111-204, “Improper Payments Elimination and Recovery Act of 2010,” July 22, 2010. The audit was required by the 2010 Act. See the Appendix for our scope and methodology and prior coverage of improper payments.

## Background on the Improper Payments Elimination and Recovery Act

On July 22, 2010, the President signed Public Law 111-204, “Improper Payments Elimination and Recovery Act of 2010” (IPERA), which amended the “Improper Payments Information Act of 2002” (IPIA). The Office of Management and Budget (OMB) issued Circular A-123, Appendix C, “Requirements for Effective Measurement and Remediation of Improper Payments,” parts I and II, April 14, 2011, as guidance for agencies to implement the requirements of IPERA.

### ***IPERA Compliance Requirements***

IPERA section 3(a) states that the term “compliance” means that the agency:

- published an annual financial statement for the most recent fiscal year and posted that report and any accompanying materials required under OMB guidance on the agency website;
- conducted a program-specific risk assessment for each program or activity;
- published improper payments<sup>1</sup> estimates for all programs and activities in the accompanying materials to the annual financial statement;
- published programmatic corrective action plans...that the agency may have in the accompanying materials to the annual financial statement;
- published improper payments reduction targets...that the agency may have in the accompanying materials to the annual financial statement for each program assessed to be at risk, and is meeting such targets; and
- reported an improper payment rate of less than 10 percent for each program and activity for which an estimate was published.

---

<sup>1</sup> An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments made to eligible recipients (including appropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). Improper payments also include payments made to ineligible recipients or for ineligible goods or services, or payments for goods or services not received (except for such payments authorized by law). Improper payments also include payments when an agency’s review is unable to determine whether the payments were proper as a result of insufficient or lack of documentation.

OMB implementing guidance added an additional requirement for determining agency compliance. Specifically, OMB Circular A-123, appendix C, part I, requires agencies to report information on efforts to recapture improper payments.

IPERA section 3(b) requires the Inspector General to annually review and determine agency compliance with IPERA. Implementing guidance requires the office of the agency Inspector General to submit a report with its determination on the agency's compliance to the head of the agency, Senate Homeland Security and Governmental Affairs Committee, House Committee on Oversight and Governmental Reform, Comptroller General, and OMB Controller, on an annual basis within 120 days of the AFR issuance.

If an agency did not meet one or more of these requirements, it was not compliant with IPERA. IPERA implementing guidance encourages the office of the agency Inspector General to evaluate, as part of its review of these improper payment elements, the accuracy and completeness of agency reporting and evaluate agency performance in reducing and recapturing improper payments. The guidance also encourages the office of the agency Inspector General, as part of its report, to include any recommendations for actions to improve the agency's performance in reducing improper payments.

## **Internal Controls Over the Identification and Reporting of Improper Payments**

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires the DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. The DoD self-identified internal control weaknesses related to improper payment identification and reporting in its "FY 2012 Agency Financial Report." Specifically, the DoD reported that the Statement of Budgetary Resources was not auditable, and as a result, the DoD could not reconcile payments to total DoD outlays to ensure that it identified and reviewed all payment programs. As a result of that weakness, DFAS reported \$12.3 billion in outlays that were not reviewed for improper payments. Disbursements made by the Navy Enterprise Resource Planning System totaling approximately \$1.4 billion were not included in the AFR because the sampling and review plan was not in place early enough in FY 2012 to report improper payments in the AFR. We are not making any recommendations to correct those internal control weaknesses because USD(C)/CFO disclosed these problem areas and estimated completion dates for auditability.

The DoD did not meet reduction targets for travel payments made by Defense Finance and Accounting Service (DFAS) due to inadequate reviews of travel vouchers by approving officials. We identified problems that the approving/certifying officials should have detected during their travel voucher review, including incorrect meal rates, missing receipts for airfare and lodging, and payments where the receipt did not agree with the claim. We will provide a copy of the report to the senior official in charge of internal controls for USD(C)/CFO.

## **Finding. DoD Met Five of the Six Improper Payments Elimination and Recovery Act Requirements and Made Significant Program Improvements**

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO) published the FY 2012 AFR showing that the DoD met five of the six requirements of the IPERA. Specifically, the DoD:

- published an AFR,
- conducted program specific risk assessments,
- published improper payment estimates,
- published corrective action plans, and
- reported improper pay rates of less than 10 percent.

The DoD did not meet the requirement to achieve all reduction targets. Specifically, DFAS did not meet the reduction target for DFAS Travel Pay (one of the eight DoD payment programs), with total reported outlays of \$8.4 billion. OMB Circular A-123, appendix C, part II, defines compliance as having published and met annual reduction targets for each program assessed to be at risk for improper payments.

USD(C)/CFO set a FY 2012 reduction target for DFAS Travel Pay at 3.27 percent in its FY 2011 AFR. However, the actual improper payments reported in the DoD FY 2012 AFR for DFAS Travel Pay were 5 percent of total outlays, or \$419.3 million. This occurred because authorizing officials' reviews of travel vouchers were not adequate to prevent improper payments. As a result, the DoD did not achieve the improper payment reductions intended in IPERA for DFAS Travel Pay or fully comply with IPERA in FY 2012.

The USD(C)/CFO made program improvements during FY 2012, including statistical projection of improper payment error rates for contract and vendor payments, as well as reviewing additional military health benefit programs that had previously not been included in IPERA reviews. However, challenges remained related to fully capturing improper payments. Specifically, DFAS identified \$12.3 billion in outlays that were not reviewed for improper payments but should have been. As a result, the USD(C)/CFO did not provide accurate improper payment estimates.

### **DoD Properly Published an Agency Financial Report for FY 2012**

The DoD issued its FY 2012 AFR on November 15, 2012, and published the AFR on its website. USD(C)/CFO complied with the IPERA requirement to publish an AFR. OMB Circular A-123, Appendix C, Part I, "Improper Payments Elimination and Recovery," April 14, 2011, requires that agencies report to the President and Congress an estimate of

the annual amount of improper payments for all programs and activities determined to be susceptible to significant improper payments. OMB Circular A-136 Revised, “Financial Reporting Requirements,” August 3, 2012, required that the DoD issue the report by November 15, 2012.

## **DoD Identified Eight Payment Programs Susceptible to Improper Payments**

USD(C)/CFO met the IPERA requirement to conduct program-specific risk assessments. OMB Circular A-123, appendix C, part I, required agencies to establish a systematic method of identifying programs susceptible to significant improper payments and stated that the systematic method could be a quantitative evaluation based on a statistical sample or it could take into account risk factors.

According to the FY 2012 AFR, “Because OMB determined that all DoD payments are risk susceptible, the Department maintains a more conservative position than required by IPERA and considers all payment categories as high risk, annually testing and reporting improper payments in all six categories.”<sup>2</sup>

USD(C)/CFO identified the following eight programs, with combined outlays totaling approximately \$677.89 billion:

- Military Health Benefits,
- Military Pay,
- Civilian Pay,
- Military Retirement,
- Travel Pay,
- Commercial Pay,
- U.S. Army Corps of Engineers (USACE) Travel Pay, and
- USACE Commercial Pay.

## **Statistical Sampling and Projection of Improper Payments**

USD(C)/CFO met the IPERA requirement to publish improper payment estimates for programs identified as susceptible to significant improper payments. OMB Circular A-123, appendix C, part I, requires agencies to publish improper payment estimates for all programs identified as susceptible to significant improper payments under its risk assessment.

The DoD made program improvements during FY 2012, including statistical sampling and projection of improper payment error rates for contract and vendor payments as well as reviewing additional military health benefit programs that had previously not been

---

<sup>2</sup> The DoD AFR discusses “six categories” but reports on eight programs because USACE Travel and Commercial Pay are reported separately from DFAS Travel Pay and DFAS Commercial Pay.

included in IPERA reviews. The DoD still has other challenges related to improper payments including the \$12.3 billion in outlays that were not reviewed for improper payments but should have been. As a result, the USD(C)/CFO did not provide accurate improper payment estimates.

USD(C)/CFO reported in the FY 2012 AFR improper payment estimates for each of the eight programs identified under the risk assessment as susceptible to significant improper payments. The improper payment rates for the eight programs ranged from 0.02 to 5.00 percent. The FY 2012 AFR contained the following estimates and percentages (see Table).

**Table. FY 2012 Improper Payment Estimates for the High-Risk Programs**

<b>Program</b>	<b>Outlays</b>	<b>Improper Payments</b>	
	<b>Total (millions)</b>	<b>Error Percentage</b>	<b>Estimated Improper Payments(millions)</b>
Military Health Benefits	\$20,900	0.15	\$31.3
Military Pay	95,500	0.24	226.8
Civilian Pay	59,000	0.14	81.8
Military Retirement	55,100	0.02	13.1
Travel Pay	8,400	5.00	419.3
Commercial Pay	408,700	0.02	100.1
USACE Travel Pay	190	0.04	0.8
USACE Commercial Pay	30,100	0.03	8.8
<b>Total</b>	<b>\$677,890</b>	<b>0.13<sup>3</sup></b>	<b>\$882.0</b>

According to the DoD FY 2012 AFR, in prior years, DFAS did not use a statistically valid estimation process. The FY 2012 Commercial Pay improper payments using the prior year methodology were \$318.3 million, versus the estimated \$100.1 million estimate from statistical sampling methods. According to the USD(C)/CFO, the main reason for the difference is due to the sample design. Their statistical sample selected invoices without regard to dollar value, and for sampling purposes a \$10 million invoice had the same chance of being sampled as a \$100 invoice.

USD(C)/CFO reported that the DoD was unable to reconcile its outlays to the quarterly or annual gross outlays reported in the SBR to ensure that all required payments for reporting purposes were captured. As a result of the difficulty in reconciling SBR outlays to improper payment programs, \$12.3 billion in outlays were not reviewed for improper payments but should have been. As a result, the USD(C)/CFO did not provide accurate improper payment estimates.

<sup>3</sup> The Improper Payment percent total is an auditor-calculated amount, not the total of the percentages.

In addition to the DoD statistical sampling and projection of errors as required in the IPERA law, the USD(C)/CFO monitored and reported on actual improper payments in its Quarterly High Dollar Improper Payment Report as required under Executive Order 13520, “Reducing Improper Payments and Eliminating Waste in Federal Programs.” In a prior DoD Inspector General Report No. D-2011-050, “DoD Needs to Improve High Dollar Overpayment Review and Reporting,” March 16, 2011, we recommended that the DoD develop a methodology that included procedures to review additional sources for high dollar overpayments including results from investigations, audit reports, and management reports. The USD(C)/CFO agreed with the recommendation and started procedures to review other sources.

The estimated amount of improper payments for the commercial pay program does not fully disclose all the positive actions of Defense activities to identify and recover payments. During FY 2012, the Defense Logistics Agency Troop Support activity began recovering payments it funded on a subsistence contract from December 2005 through September 2011 totaling \$756.9 million. The Defense Logistics Agency indicated that recoveries were ongoing at a rate of approximately \$21 million per month since March 2012. Additional sources were the Defense Contract Audit Agency’s audits and the subsequent recovery actions of contracting officers. The April 1, 2012, thru September 30, 2012 DoD Inspector General Semiannual Report to Congress showed that contracting officers initiated actions during the period to disallow<sup>4</sup> \$692.0 million of costs questioned in Defense Contract Audit Agency contract audits.

## **Corrective Actions to Further Reduce Improper Payments**

USD(C)/CFO met the IPERA requirement to publish corrective actions plans. OMB Circular A-123, appendix C, part I, states that agencies should use the results of their statistical sampling measurements to identify the root causes of improper payments, and implement corrective actions to prevent and reduce improper payments.

In the FY 2012 AFR, USD(C)/CFO published corrective action plans for each of the programs susceptible to significant improper payments. In most cases, the corrective actions were in progress through the year. For example, the DoD, primarily through DFAS, continued to work with Components and Military Services to advise them of the results of payment reviews and the associated reasons for the errors.

## **Reported Improper Payment Rates were Below the OMB Established Threshold**

USD(C)/CFO met the IPERA requirement to report improper payment rates of less than 10 percent for each estimated program. OMB Circular A-123, appendix C, part II, requires agencies to report a gross improper payment rate of less than 10 percent for each program with an improper payment estimate. The DoD did not report any payment programs with improper payment rates above 10 percent.

---

<sup>4</sup> Disallowed costs are costs sustained by the contracting officer in negotiations with contractors.

The total dollars disbursed and total dollar amounts of improper payments were high; however, the percentages of improper payments were relatively low. Improper payment rates for seven of the eight payment programs were below 0.25 percent. The DFAS Travel Pay program, which does not include USACE travel, had the highest reported improper payment rate at 5.00 percent. The overall improper payment rate for FY 2012 was 0.13 percent.

## **Improper Payment Estimates Increased for One of the Eight Payment Programs**

USD(C)/CFO did not meet the IPERA requirement to meet annual reduction targets. OMB Circular A-123, appendix C, part II, defines compliance as having “published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.” USD(C)/CFO set a FY 2012 reduction target for DFAS Travel Pay at 3.27 percent in the DoD FY 2011 AFR. However, the improper payment estimate reported in the DoD FY 2012 AFR for DFAS Travel Pay was 5 percent of total outlays, or \$419.3 million. We determined that this occurred because authorizing officials’ reviews of travel vouchers were not adequate to prevent improper payments. As a result, improper payments were increasing in travel, and the DoD did not achieve the improper payment reductions intended in IPERA for DFAS Travel Pay or fully comply with IPERA in FY 2012.

Authorizing/certifying officials are responsible for verifying that:

- expenses are valid, both the type and the amount;
- receipts are attached for all lodging and expenses that are \$75 or more;
- scanned receipts show that payment was made and are legible;
- amounts and dates for the expenses on the voucher match the receipts; and
- methods of reimbursement are correct for each expense type.

DFAS Post-Pay review identified several causes for the increased improper payments including:

- invalid signatures and approval dates, 17.5 percent of total errors (\$368,263.15);
- incorrect meal rates, 11.5 percent of total errors (\$242,518.21);
- missing payee information, 10.8 percent of total errors (\$227,655.76); and
- lodging paid without receipt, 7.4 percent of total errors (\$154,860.44).

The DoD would not have made these improper payments if the authorizing/certifying official conducted an adequate review of the travel voucher prior to payment. In order for the DoD to reduce improper payments in the travel pay program and be compliant with the requirements of the IPERA, the USD(C)/CFO should consider working with Military Department and Defense Agencies to develop metrics and quality assurance goals. The USD(C)/CFO should also develop programmatic corrective action plans for authorizing/certifying officials who certify vouchers that result in an improper payment, including holding those officials financially liable where appropriate.



## **DoD Also Met an Additional OMB Requirement to Report on Efforts to Recover Improper Payments**

USD(C)/CFO also met the OMB Circular A-123, appendix C, part I requirement to report information on efforts to recapture improper payments. USD(C)/CFO stated in the FY 2012 AFR that the Department uses a number of methods to prevent, identify, and collect improper payments, to include contract claims audited by an external contractor utilized by the TRICARE Management Activity and internal DoD staff to recapture overpayments and manage debt collection. The DoD did not use external payment recapture auditors instead it utilized internal payment recapture auditing processes to identify and recover outstanding overpayments.

DFAS has implemented a centralized offset program to look across Defense agencies for opportunities to offset debts within the first 90 days of delinquency. Once this deadline passes, DFAS transfers the debts to the Department of the Treasury to utilize all debt collection tools available to increase the likelihood of collecting the debt. The DoD program officials requested and confirmed nearly 1,200 offsets totaling approximately \$13 million during FY 2012 using the centralized offset program.

According to the FY 2012 AFR, the Department also is working on initiatives to standardize Treasury FedDebt<sup>5</sup> profiles for all DoD programs and establish new cross-servicing programs for many of its medical installations operated by the TRICARE Management Activity and the Army Medical Command.

## **Disclosures on Accuracy and Completeness Showed Weaknesses in Improper Payments Reviews**

OMB Circular A-123, appendix C, part II, states that the agency Inspector General, as part of its improper payment review, should also evaluate the accuracy and completeness of the DoD reporting. During the audit, we noted that USD(C)/CFO had disclosed, in the AFR, weaknesses in the accuracy and completeness of the DoD reporting.

Specifically, the USD(C)/CFO reported that there were problems with the completeness and accuracy of the DoD improper payment review and the information it reported. The USD(C)/CFO reported that:

- The SBR was not auditable, and as a result, the DoD could not reconcile outlays to the quarterly or annual gross outlays reported in the SBR to ensure that all required payments for reporting purposes were captured; and
- Disbursements in the Navy Enterprise Resource Planning System, totaling approximately \$1.4 billion, were not reviewed or included in the FY 2012 AFR

---

<sup>5</sup> FedDebt supports the Federal government's delinquent debt collection programs, which were centralized in Treasury/FMS by the Debt Collection Improvement Act of 1996. The FedDebt system maintains records on individuals and organizations who owe delinquent debt(s) to the U.S. Government.

because the Navy's sampling and review plan was not in place early enough in FY 2012 to report improper payments.

We agree that those areas need improvement before the DoD can provide complete and accurate information. Reconciliation would have ensured that the DoD included all payments and programs in its improper payment reviews and may have identified additional areas for review. DFAS provided a partial reconciliation that showed that \$12.3 billion in outlays that were not reviewed for improper payments but should have been. As a result, the USD(C)/CFO did not provide accurate improper payment estimates.

In previous reports, listed in the Appendix, we identified similar problems and issued recommendations to correct the areas that the DoD disclosed in its AFR. As a result, we are not making additional recommendations to improve the accuracy and completeness of the reporting until the DoD is able to take corrective actions on the recommendations and weaknesses it identified in the AFR.

## **Remediation for Non-Compliance**

OMB Circular A-123, Appendix C, Parts I and II states that:

Agencies that are not compliant with IPFA must complete several actions. For agencies that are not compliant for one fiscal year, within 90 days of the determination of non-compliance, the agency shall submit a plan to the Senate Homeland Security and Government Affairs Committee and the House Committee on Oversight and Governmental Reform describing the actions that the agency will take to become compliant. The plan shall include:

- Measurable milestones to be accomplished in order to achieve compliance for each program or activity;
- The designation of a senior agency official who shall be accountable for the progress of the agency in coming into compliance for each program or activity; and
- The establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the senior agency official in leading agency efforts to achieve compliance for each program and activity.

The DoD was not compliant with the requirement to meet reduction targets for the DFAS Travel Pay payment program. The USD(C)/CFO should, as required by Public Law 111-204 and implementing guidance, develop and submit a plan on the actions the agency will take to become compliant.

## **Management Corrective Actions**

USD(C)/CFO reported that the DoD was working to improve business and financial processes, controls, and systems to achieve financial statement audit readiness by September 30, 2017, as required by Congress. Full details on the DoD efforts to achieve audit readiness are available in the DoD Financial Improvement and Audit Readiness

Plan.<sup>6</sup> In addition, the timing of issues related to the review of Navy Enterprise Resource Planning System payments only affected FY 2012 reporting.

## **Recommendations, Management Comments, and Our Response**

**We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD work with Military Departments and Defense Agencies to:**

**1. Develop metrics and quality assurance goals as well as programmatic corrective action plans for authorizing/certifying officials certifying vouchers that result in an improper payment, including holding those officials financially liable where appropriate.**

**2. Develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report.**

### ***Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments***

The Deputy Chief Financial Officer responded on behalf of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD. The Deputy Chief Financial Officer agreed with the recommendations and stated that the Department has been working to improve internal controls and training for travelers and approving officials. The Deputy Chief Financial Officer also stated that the Department will submit the remediation plan within the required 90-day deadline to the appropriate congressional committees.

### ***Our Response***

Comments from the Deputy Chief Financial Officer were responsive. Therefore, no further comments are required.

---

<sup>6</sup> The DoD Financial Improvement and Audit Readiness reports are available on the DoD Comptroller's website, <http://comptroller.defense.gov/fiar/>

## **Appendix. Scope and Methodology**

We conducted this performance audit from October 2012 through March 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine the DoD compliance with IPERA requirements, we obtained and reviewed the “Improper Payment and Payment Recapture Programs” report published in Addendum A, “Other Accompanying Information,” of the FY 2012 AFR. We also obtained and reviewed Public Law 111-204 and OMB Circulars A-123 and A-136. We then reviewed the methodology used to conduct program sampling and projection and requested information from personnel from the USD(C)/CFO, DFAS, TRICARE Management Activity, and USACE to obtain details on the reporting process. We gathered and reviewed supporting documentation used to support program estimates, payment recapture efforts and results, reduction targets, and corrective actions reported by the DoD.

### **Use of Computer-Processed Data**

We did not rely on computer-processed data.

### **Use of Technical Assistance**

During the audit, we requested and received technical assistance from the DoD Office of Inspector General Quantitative Methods Division. They determined “The sampling methodology used by DFAS to determine the error rate (attribute projection) for commercial payments is acceptable. The sample size used is sufficient to calculate improper payments error rate/percentage within the given parameters.”

The SBR was not auditable, and as a result, the DoD could not reconcile outlays to the quarterly or annual gross outlays reported in the SBR to ensure that all required payments for reporting purposes were captured. DFAS identified \$12.3 billion in outlays that were not reviewed for improper payments but should have been. As a result, the USD(C)/CFO did not provide accurate improper payment estimates.

### **Prior Coverage on Improper Payments**

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Inspector General (DoD IG) issued nine reports discussing improper payments, including a DoD IG audit of FY 2011 Compliance with IPERA. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

## **GAO**

GAO Report No. GAO-09-442, "Significant Improvements Needed in DOD's Efforts to Address Improper Payment and Recovery Auditing Requirements," July 29, 2009.

## **DoD IG**

DoD IG Report No. DODIG-2012-130, "DFAS Controls Over Duplicate Payments in One Pay Were Generally Effective, But There Were Opportunities for Improvement," September 14, 2012.

DoD IG Report No. DODIG-2012-065, "DoD Compliance With the Requirements of the Improper Payments Elimination and Recovery Act," March 15, 2012.

DoD IG Report No. D-2011-093, "Active Duty Military Personnel Accounts Were Generally Valid and Secure, but DoD May Have Made Improper Payments," July 27, 2011.

DoD IG Report No. D-2011-050, "DoD Needs to Improve High Dollar Overpayment Review and Reporting," March 16, 2011.

DoD IG Report No. D-2010-037, "Internal Controls Over United States Marine Corps Commercial and Miscellaneous Payments Processed Through the Deployable Disbursing System," January 25, 2010.

DoD IG Report No. D-2009-072, "Monitoring PowerTrack Payments for DoD Freight Transportation," April 9, 2009.

DoD IG Report No. D-2008-132, "Ocean Freight Transportation Payments Using PowerTrack (FOUO)," September 26, 2008.

DoD IG Report No. D-2008-096, "Identification and Reporting of Improper Payments by the Defense Logistics Agency," May 20, 2008.

# Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

MAR 1 2013


MEMORANDUM FOR PROGRAM DIRECTOR, DOD PAYMENTS AND ACCOUNTING  
OPERATIONS, DEPARTMENT OF DEFENSE OFFICE OF  
INSPECTOR GENERAL

SUBJECT: Comments on the Discussion Draft of a Proposed Report, "DoD Efforts to Meet the  
Requirements of the Improper Payments Elimination and Recovery Act in FY 2012"  
(Project No. D2013-D000DC-0034.000)

This memorandum provides the Office of the Under Secretary of Defense (Comptroller) response to the subject Department of Defense (DoD) Office of Inspector General discussion draft dated February 21, 2013. The report found that DoD met five of six requirements of the Improper Payments Elimination and Recovery Act (IPERA). Despite diligent implementation of the commercial pay statistical sampling plan, the Defense Finance and Accounting Service (DFAS) was not able to reduce improper payments for DFAS Travel Pay in Fiscal Year 2012.

We concur with your recommendations. The Department has been working with the Military Services and Defense Agencies to tighten internal controls and improve training procedures for travelers and approving officials. We will also submit the statutory remediation plan within the required 90-day deadline to the appropriate congressional committees. DoD will make every effort to meet all IPERA requirements going forward.

Thank you for the opportunity to respond to the discussion draft. My staff contact is [REDACTED] who can be reached at [REDACTED]

  
Mark E. Easton  
Deputy Chief Financial Officer





# Inspector General Department of Defense

